



CAPITAL MARKETS UPDATE

Middle Market M&A
Q4 2025

MARKET COMMENTARY

Winter Warning from Boston

When asked to write a piece to recap the Merger and Acquisition (M&A) markets last year and provide some expectations for 2026, my first thought was, “Stick a fork in my eye.” My response, however, was “Sure thing,” said with a smile even. But I’m from Boston and it’s dead-winter, so here is what you can expect: bluntness (if not flippancy); a punishing use of metaphors (that don’t relate in any way); no care for statistical support (there is enough of that in this and other reports); and a flicker of hopeful, “We will get ‘em next year,” (leftovers from the Bambino Curse). If nothing new, I hope you either get a chuckle or can at least feel my pain as a long-time M&A soldier. There is a lot to cover, so here we go...

2025 M&A Market: A Wild Ride to a Promising 2026

If 2024 felt like trying to run an M&A process on a dial-up modem, 2025 was the year someone finally upgraded the Wi-Fi. Not perfect, not seamless, but at least the spinning wheel of death wasn’t haunting every conversation. For all its noise (tariffs, surprise policy zigs and zags, and inflation readings that kept everyone guessing), 2025 was ultimately a year the middle market regained its footing. As we slide into 2026, the momentum feels real, tangible, and frankly long overdue. As someone who’s been doing this for 37 years, I’d call 2025 a “good-enough” year with pockets of excellence. And good-enough is sometimes all this industry needs to light the fuse for a much stronger one.

Macroeconomic Backdrop: Someone Finally Stopped Moving the Goalposts

The Federal Reserve (Fed), after two years of making markets feel like



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MARKET COMMENTARY (CONTINUED)

they were driving on a gravel road, finally settled into something resembling consistency. The three rate cuts totaling 75 basis points (bps) in 2025 didn't ignite an instant bonfire of deal activity, but they did restore confidence (the most precious commodity in our business). Rates found a resting place in the mid 3% range, which was not low enough for CFOs to start tap dancing, but low enough for lenders to sharpen pencils and sponsors to underwrite without needing smelling salts. Then there were tariffs, the recurring guest star in the 2025 drama. Every time a new tariff announcement rolled in, it froze cross-border deal traffic faster than a winter blizzard in Boston during rush hour. Due diligence sections ballooned with tariff matrices, supply chain sensitivity charts, and hedging scenarios that would make a mathematician grunt. But ultimately, the market learned to live with the new normal. Domestic, asset-light companies with minimal import exposure suddenly found themselves cast as "safe harbors," and buyers responded accordingly.

Private Credit: The Capital Markets' Main Character

If 2025 had a breakout star, it was private credit. Direct lenders didn't just show up, they arrived with fresh term sheets, tighter execution, and a swagger that said, "We'll close this before a bank finishes its committee memo." The cost of capital eased, certainty of execution ruled, and sponsors loved every minute of it. Meanwhile, the Syndicated Loan market played peekaboo all year: wide open one quarter, then jammed the next. For M&A, that meant if you wanted reliability, you weren't dialing a bank. You were texting a direct lender on a Sunday night and getting a response before kickoff. This shift wasn't temporary. Private credit has become the bouncer at the door, the one who decides who gets into the financing party, how quickly, and with what terms. Heading into 2026, they're still standing there with a reinforced clipboard.

Valuations: Quality Stayed Expensive, Everything Else Not So Much

Here's the plot twist many didn't expect—valuations stayed strong. Not 2021 strong, but strong enough that sellers with real businesses (meaning margins, scale, predictable revenue, and a management team that didn't terrify buyers) got paid handsomely. Buyers opened-up for defensible, service-heavy, recurring revenue models. Lower quality assets—different story. That part of the market saw buyers sprint toward diligence, find one too many surprises, and politely excuse themselves from the table. If you were selling something cyclical, tariff exposed, or mysteriously "under invested", the process often felt like trying to sell a used car with the check engine light on. But the upper half of the market was solid, competitive, and sometimes downright lively (like the good old days).

Private Equity: Add-Ons Took Over the Universe

Private equity (PE) kept doing what PE does: adapt. When platform opportunities were tight, they doubled down on add-ons, which by now make up the great majority of sponsor deal activity. Buy-and-build is no longer a strategy; it's the default operating system. Sponsors loved platforms that came pre-wired with an integration roadmap, adjacency targets, and systems modern enough that onboarding a new acquisition didn't require prayer. Firms leaned hard into industries where roll ups work: Business Services, Specialty Healthcare, Information Technology (IT) Services, and certain Industrial niches. The appetite was there, as was the discipline. The one area that lagged was fundraising. Limited partners (LPs) were more selective, creating bottlenecks for emerging and mid-size funds. But the dry powder already raised is still ginormous, which means 2026 will be defined by deployment (vs. hesitation).

MARKET COMMENTARY (CONTINUED)

Sector Pulse: Who Thrived in 2025

- **Healthcare & Medical Technology (MedTech)** surged in the back half of the year, with big strategic deals reopening the market and sponsors chasing anything with reimbursement clarity and recurring demand.
- **Technology-Enabled Services** were the belle of the ball with sticky revenue, high margins, and predictable growth (PE catnip).
- **Transportation & Logistics (T&L)** had a rougher year thanks to tariffs and freight dynamics, but specialized operators still attracted interest.
- **Industrial Products** was sharply bifurcated: automation and engineered components drew strong bids while commodity-driven manufacturing struggled.

Blurb on Antitrust: A Return to Reason

Thank you 2025 for a surprisingly pleasant development: antitrust reviews became more predictable. The era of block-first and ask-questions-later softened. Regulators demonstrated more openness to structural remedies, carveouts, and reasonable timelines. Deals with clear market logic and limited concentration concerns resumed flowing without fear of Kafkaesque process traps. There were no free passes, but the environment felt significantly less adversarial than in years past.

What Sellers Learned in 2025

The song remains the same. Three lessons, which never really go away but sometimes get dampened, pushed to the front of the line in 2025:

1. Clean financials win. Fast diligence equals more bidders.

2. Recurring revenue is the closest thing you have to a superpower.
3. Storytelling matters. Buyers don't just purchase numbers; they purchase momentum, clarity, and vision.

2026: A Year with Real Momentum

Given that I have retired from making bold predictions of the return to power for middle market M&A, I do not say this lightly, "2026 looks legitimately promising." I'm not pointing to bubble-level mania (like up 30% in volume), but it already feels different in the early months. Beyond our deal closing bells ringing on nearly a daily basis, we expect healthy, broad-based activity driven by:

- Rate stability.
- Massive PE deployment pressure.
- Private credit's continued dominance.
- Backlog of prepared sellers.
- More predictable regulatory review.
- Better alignment between buyer and seller expectations.

I've lived through enough cycles to know that M&A hates uncertainty more than anything. For the first time in several years, it feels like the fog is lifting (at least enough for me to share positive sentiments again). 2025 laid the groundwork, and 2026 is shaping up to reap the benefits. We are certainly putting our money where our mouths are, having just doubled-down in December of 2025 with the acquisition of [TM Capital](#) and focused industry groups from Janney Montgomery. Boy, wouldn't it be nice if the market growth rate matched our expansion (30%). We shall see, but in the meantime (on behalf of all M&A dealmakers), I'm saying to 2026, "Bring it on—we are ready and waiting."

M&A OVERVIEW & OUTLOOK

2025 TAKEAWAYS & THEMES

Middle market M&A activity remained largely stagnant in 2025, as improving dealmaking sentiment in H2 2025 failed to offset a trough in activity related to tariff and geopolitical uncertainty earlier in the year. Private strategics proved nimble and hungry for inorganic growth in the shifting landscape. PE buyers also reentered the market tactfully during the year.

- M&A activity rose 0.3% year-over-year (YOY) following consecutive volume declines in 2024 and 2023 as Q2 turbulence delayed many transaction processes and conviction dipped. However, targets with meaningful scale and differentiated capabilities continued to transact and command premium multiples despite persistent valuation discipline.
- PE dealmaking showed signs of recovery, with YOY growth supported by a stabilizing macroeconomic backdrop. Exits and fundraising remained challenged, but the broader M&A landscape shifted toward measured expansion, as buyers recalibrated to capitalize on emerging opportunities.

M&A activity in the middle market is poised for a rebound in 2026, supported by a resilient economic backdrop and renewed strategic confidence. While deal activity remained selective through 2025, several tailwinds are expected to accelerate transaction flow.

- Falling rates and improving credit conditions are anticipated to ease financing constraints, allowing buyers to pursue larger, more complex transactions.
- Corporate portfolio optimization is expected to create attractive acquisition opportunities for both strategic and financial buyers through ongoing divestitures and carve-outs.
- PE exit momentum is likely to build, with general partners (GPs) prioritizing asset monetization to meet LP liquidity needs and restart fundraising cycles, creating a steady flow of secondary transactions and sponsor-to-sponsor deals.

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Capstone Barometers

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KEY CONSIDERATIONS FOR BUSINESS OWNERS

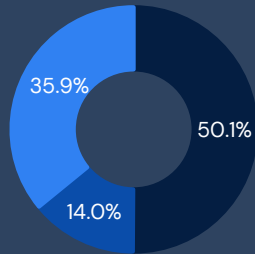
	Current State	Takeaways for Business Owners
Dry Powder	Abundant	Record-high dry powder levels remain for PE firms to tap despite accelerated sponsor dealmaking in 2025. Dry powder will likely tick down gradually as a six-month delay in data reporting catches up with healthier capital deployment in 2025 and investments far outpace fundraising activity. PE firms are entering 2026 with significant capital reserves and capacity for sustained investment momentum. Favorable debt financing conditions should further support new platforms.
Buyer Appetite	Renewed	Private strategic buyers showed a renewed appetite for acquisitions, acclimating well to the shifting macroeconomic and trade backdrop. Public strategics pulled away from middle market M&A to focus on internal operational adjustments or organization-shifting acquisitions in the form of mega-deals. PE firms welcomed additional interest rate cuts from the Fed and mobilized dry powder in new platform investments. Sentiment across buyer cohorts improved throughout 2025, pushing expectations for a strong M&A market in 2026.
Debt Market	Softening	The Fed's rate-cutting cycle continued in 2025, supporting activity in the Institutional Loan market. Private credit lenders maintained competitive pressure, contributing to tighter spreads charged above base rates and signaling a borrower-friendly environment. Corporate use of debt capital to finance acquisitions increased handily in 2025 while sponsors continued to account for the majority of M&A-related loan issuance in 2025. While leveraged buyout (LBO) issuance dropped slightly YOY, add-on financing activity remained healthy.
Valuations	Prioritizing Operational Agility and Scale	The average M&A multiple in 2025 was 9.4x EV/EBITDA, surpassing the prior year (9.1x) as PE buyers paid above-market valuations (9.6x) for highly strategic add-ons. Businesses that can withstand macroeconomic uncertainty and deliver long-term value continued to garner elevated valuations. Businesses comfortably within the middle market saw robust M&A pricing as buyers valued operational agility and scale, reflecting a risk-aware posture. As buyer sentiment continues to improve, competition for a broader set of assets will likely grow and drive valuations higher.

CAPSTONE SURVEY STUDIES 2026 BUSINESS OWNER EXPECTATIONS

Capstone Partners' annual proprietary [2025 Middle Market Business Owners Study](#) provides insight into the performance of small- and medium-sized businesses by surveying and analyzing responses from more than 400 owners of private companies across the U.S. The study highlights the challenges, growth strategies, value drivers, and the changing sentiments of middle market business owners in their respective industries and the state of the U.S. economy.

2026 U.S. ECONOMIC OUTLOOK

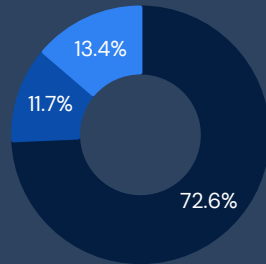
Positive Neutral Negative



Sample Size (N): 401

2026 REVENUE GROWTH OUTLOOK

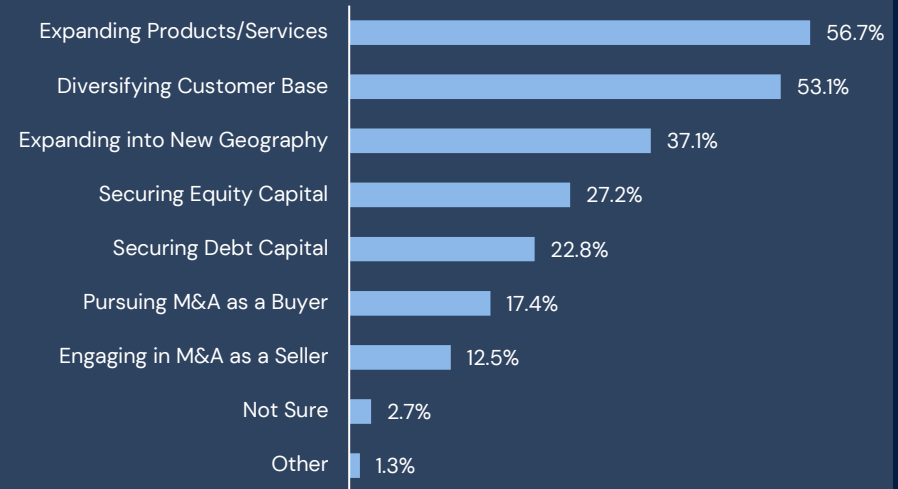
Increase About the Same Decrease



Sample Size (N): 401

PRIMARY GROWTH STRATEGIES IN 2026

Inorganic growth practices have increasingly become a key strategic option to capitalize on improving economic conditions. Middle market business owners have granted M&A more attention as a growth strategy. The share of CEOs planning buy-side (+5.9%) and sell-side (+5.5%) engagements in the next 12 months increased YOY.



Source: [Capstone Partners' 2025 Middle Market Business Owners Survey](#)
Sample Size (N): 401

2025 BY THE NUMBERS

0.3% ↗

INCREASE IN DEAL VOLUME

M&A volume inched 0.3% higher YOY in 2025 as improving sentiment failed to overturn mid-year tariff concerns.

\$147.7B ↗

TOTAL DEAL VALUE

Total deal value in 2025 jumped 5% YOY, supported by an influx of core middle market transactions.

9.4x ↗

AVERAGE EBITDA MULTIPLE

The average EBITDA multiple for middle market deals increased from 9.1x in 2024 to 9.4x in 2025.

3.8% ↗

INCREASE IN PE TRANSACTIONS

PE activity increased 3.8% YOY, boosted by a 9.1% increase in platform deals and stable add-on activity.

\$61.2B ↗

TOTAL PE DEAL VALUE

Total PE deal value increased 15.8% YOY to \$61.2 billion, the asset class' highest level of capital deployment since 2022.

9.6x ↘

PE EBITDA MULTIPLE

The average EBITDA multiple paid by financial sponsors decreased almost half a turn YOY to 9.6x in 2025.

1.2% ↗

PRIVATE STRATEGIC DEAL VOLUME

Acquisitions by private strategic buyers ticked 1.2% higher YOY in 2025, the first YOY increase since 2021.

\$60.7M ↗

AVERAGE VALUE PAID BY PRIVATES

The average enterprise value paid by private strategics rose 15.4% YOY, underscoring appetite for scale and material synergies.

13.7% ↘

PUBLIC STRATEGIC DEAL VOLUME

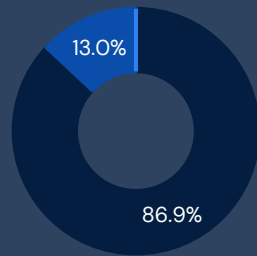
Public strategics turned focus away from middle market acquisitions with deal volume declining 13.7% YOY in 2025.

CAPSTONE & IMAP'S 2026 NORTH AMERICA M&A EXPECTATIONS

Capstone Partners and its international partner platform, IMAP, gather insights from more than 100 M&A advisors each year to create a global view of deal valuations, drivers, and expectations by region. Our [2025-2026 Trends in Global M&A Survey Report](#) includes key findings on how geopolitical volatility impacted client operations, external challenges that impacted deal closings, and dealmakers' insights into what buyers are prioritizing in target companies.

2026 M&A VOLUME GROWTH EXPECTATIONS

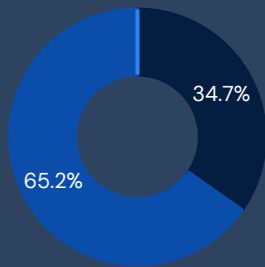
■ Increase ■ No Major Change ■ Decrease



North America Sample Size (N): 23

2026 ANTICIPATED M&A PURCHASE MULTIPLES

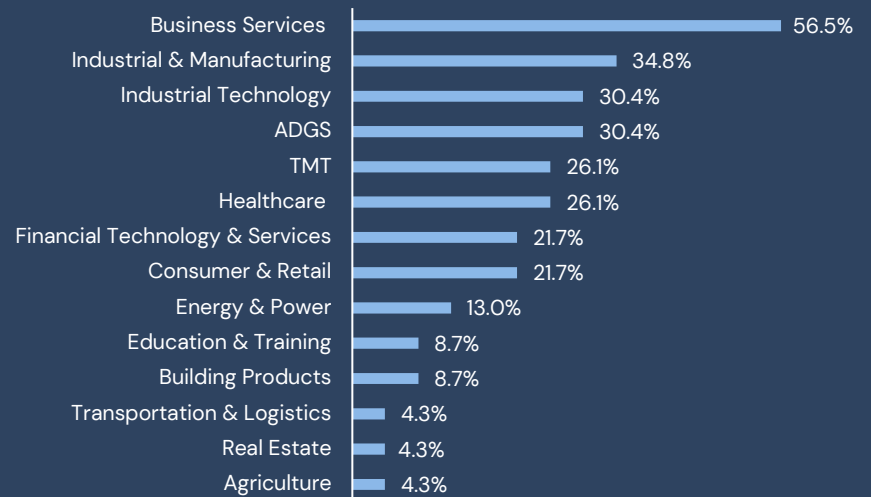
■ Higher ■ No Major Change ■ Lower



North America Sample Size (N): 23

INDUSTRIES EXPECTED TO SEE MOST PE INTEREST

IMAP and Capstone colleagues surveyed in North America identified top industries for PE activity in 2026, led by the Business Services industry with 56.5% of advisors flagging the space as a key area of focus for sponsors. The Industrial & Manufacturing, Industrial Technology, and ADGS industries were also placed as top PE targets.



Source: [Capstone Partners & IMAP 2025-2026 Trends in Global M&A Survey](#)
North America Sample Size (N): 23

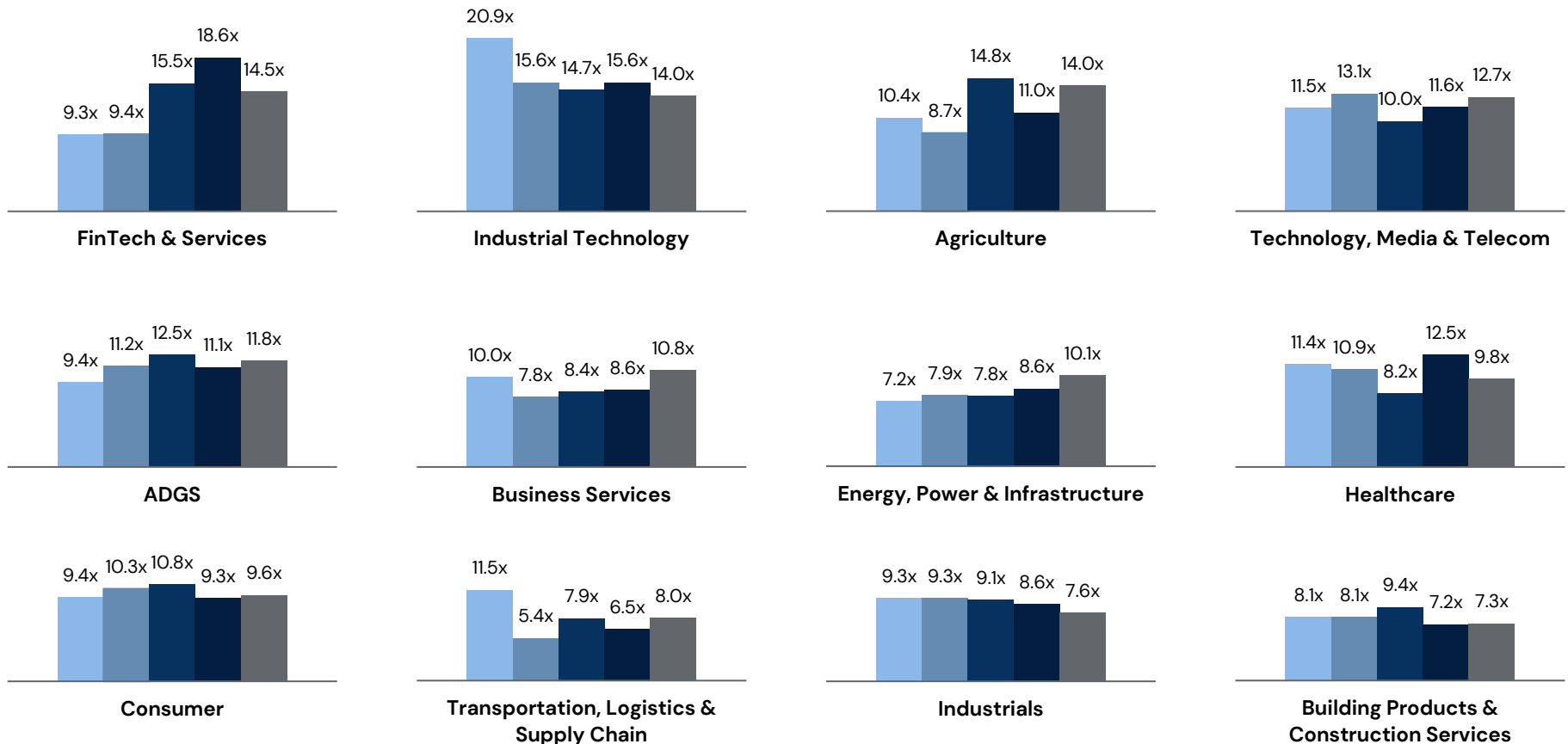
CAPSTONE'S PROPRIETARY MIDDLE MARKET VALUATIONS INDEX

Middle Market M&A Valuation Takeaways

- Capstone Partners actively monitors the purchase multiples of middle market transactions through its proprietary [database](#) to provide insight and transparency into the pricing environment.
- Eight industries saw multiple expansion YOY in 2025, led by FinTech & Services with an average of 14.5x EV/EBITDA and followed closely by Industrial Technology (14.0x) and Agriculture (14.0x).

EV/EBITDA

2021 2022 2023 2024 2025



CAPITAL MARKET DASHBOARD


YTD EQUITIES

S&P 500
+1.7%




Last	1Y %	P/E LTM
6,964.8	+16.4%	28.2

Dow Jones Industrial
+4.3%



Last	1Y %	P/E LTM
50,135.9	+13.2%	24.6

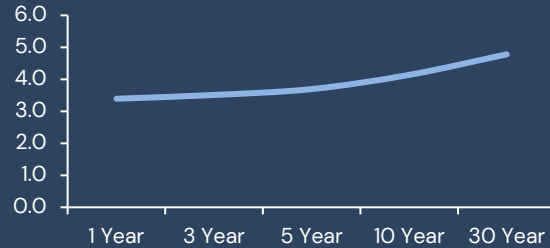
NASDAQ
+0.0%



Last	1Y %	P/E LTM
23,238.7	+25.5%	33.9

FIXED INCOME

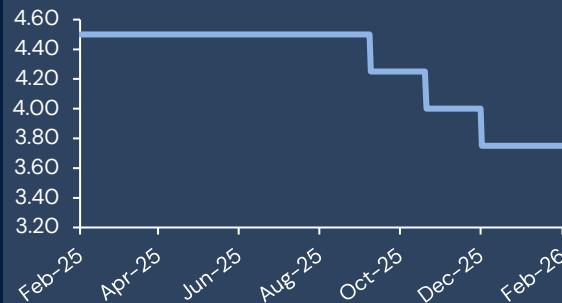
U.S. Yield Curve



1Y	3Y	5Y	10Y	30Y
3.394	3.512	3.696	4.140	4.781



POLICY RATE

Federal Funds Target Rate





M&A INDICATORS



GDP, LABOR MARKET, & INFLATION

	Last	YOY	
GDP	3.0%	0.0%	
Unemployment	4.4%	+7.3%	
Consumer Price Index	326.0	+2.7%	

CONFIDENCE LEVELS

	Last	YOY	
Consumer Confidence	84.5	-19.8%	
CEO Confidence	48.0	-5.9%	

FINANCING

	Last	YOY	
High Yield Bond Yield	7.3%	-5.4%	
Investment Grade Bond Yield	4.8%	-13.1%	

FOREIGN EXCHANGE

	Last	YOY	
USD Major Currencies Fed Index	111.1	-8.4%	

Source: FactSet and PitchBook LCD as of 2/10/26

GROWTH EQUITY MARKET CONDITIONS



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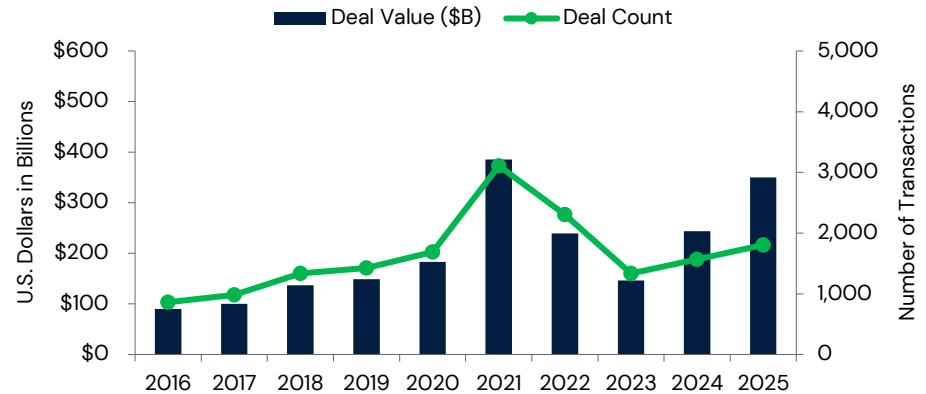
GROWTH CAPITAL VOLUME OUTPACES PRIOR YEAR, VALUATIONS CONTINUE STRONG REBOUND

2025 was the strongest year for growth equity deployment since 2021. Through 2025, equity capital investments in late-stage private companies reached \$350 billion, surpassing levels seen in recent years. Part of the volume increase was caused by larger transactions in artificial intelligence (AI) and data center companies, but even without these deals, 2025 volume landed ahead of 2024. The year saw 43 transactions above \$1 billion compared to 32 in 2024.

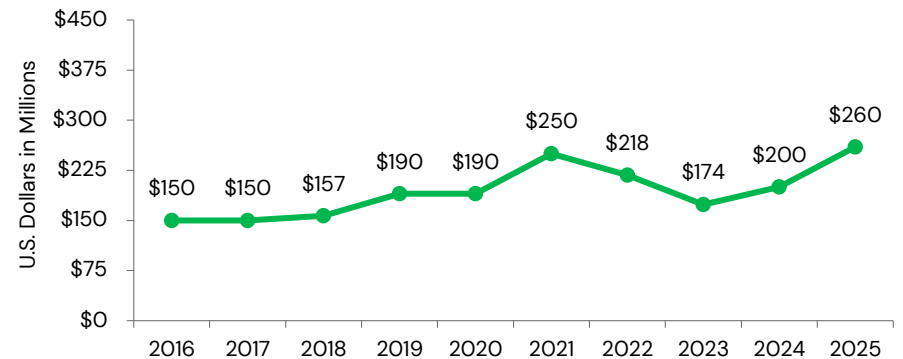
Other active sectors in growth equity financing include Professional Services and Aerospace & Defense (A&D). The Professional Services sector, which includes companies in consulting, accounting, financial advisory, and insurance, recorded 194 transactions in 2025, up from 170 in 2024. Growth equity investors have continued to show strong interest in professional services businesses due to high operating margins, AI implementation opportunities, and inorganic growth potential. Capstone anticipates that investor focus on A&D companies will remain topical in 2026. Capstone witnessed this focus first-hand in November 2025 when it advised [The Partner Companies](#), a U.S.-based advanced manufacturing company selling to the A&D sector, on its \$100+ million equity investment from Tensile Capital Management.

Valuations remained elevated in 2025, signaling sustained investor confidence and a stable late-stage funding environment. The median

Growth Capital Raised by Year



Median Pre-Money Valuation for Growth Companies



*Note: Includes all VC stages and Growth Equity transactions excluding deals <\$25 million
 Source: PitchBook and Capstone Partners*

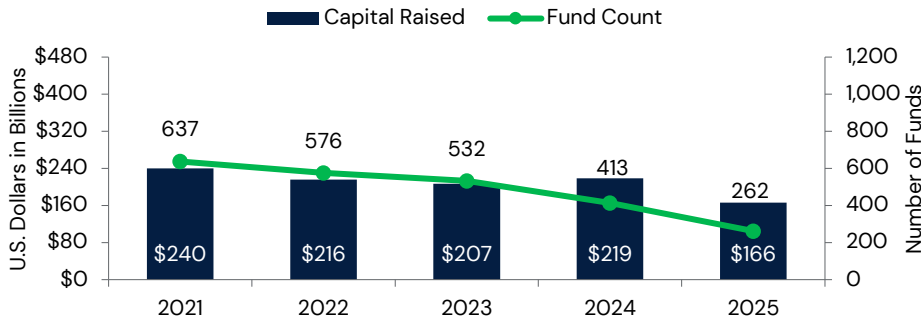
GROWTH EQUITY MARKET CONDITIONS (CONTINUED)

valuation for North American transactions reached \$260 million, compared to \$200 million in 2024 and slightly above the 2021 level of \$250 million. This continued improvement reflects robust investor sentiment, improving Public market comparables, and continued demand for high-growth opportunities, particularly in AI-driven sectors.

Financing structures have continued to evolve to meet the financing needs of companies. With interest rates still elevated and tariff-exposed sectors still challenged, there remains a need for creative structuring between capital raisers and providers. A large portion of structural creativity has been explored to fund the continued data center expansion. Equity investments that have more bespoke terms—“structured equity”—can be a compelling solution for companies in a variety of situations such as companies in performance transitions or in sectors with secular headwinds. Terms can typically be constructed to bridge a valuation gap between companies and investors.

Private equity fundraising volumes and fund count hit five-year lows. Fund count has declined each year since 2021, as LPs concentrate

U.S. Private Equity Funds Raised by Year

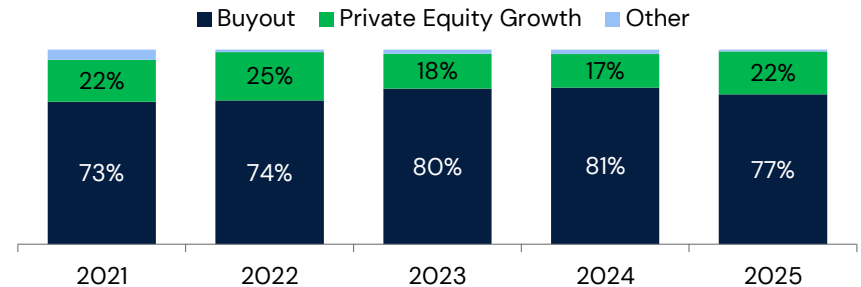


Source: PitchBook and Capstone Partners

commitments with established managers amid limited exits and distributions. Through 2025, U.S. PE and growth equity funds raised \$166 billion across 262 vehicles, down from \$219 billion across 413 vehicles during the prior year. Despite the broader slowdown, growth equity has emerged as a bright spot.

Growth equity funds remained a significant portion of the PE landscape in 2025. Growth funds have accounted for 22% of U.S. PE capital raised in 2025—the highest level in three years and a meaningful increase from the prior year (18%).

U.S. Private Equity Capital Raised by Type



Source: PitchBook and Capstone Partners

EQUITY CAPITAL MARKETS GROUP

The Equity Capital Markets Group focuses on raising equity capital financing for growth-oriented companies and structured equity for more mature middle market enterprises. Our team works closely with companies to secure equity capital to fund growth initiatives, recapitalize the balance sheet (often including shareholder liquidity), and to finance M&A transactions.

CREDIT MARKET CONDITIONS



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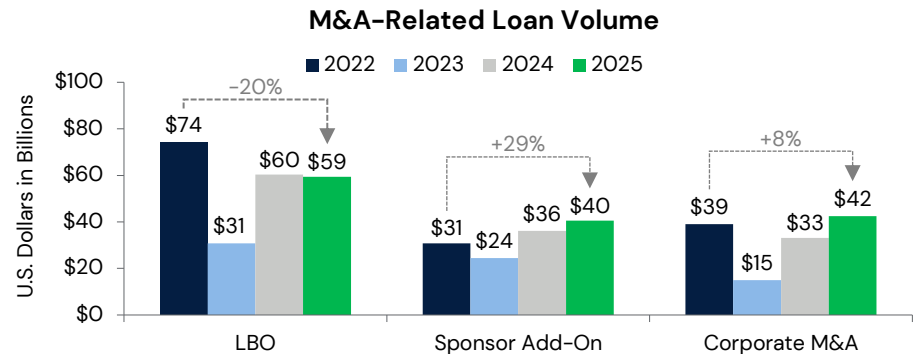
MUTED M&A ACTIVITY AND SIGNIFICANT LENDING DRY POWDER EXPECTED TO PERPETUATE BORROW-FRIENDLY MARKET IN 2026

Private Credit Fundraising & Dry Powder. The last decade has witnessed a substantial amount of investment capital flowing into the Private Credit/Direct Lending market. However, the quantum of capital raised has consistently exceeded funds deployed, which has led to a continued increase in competition among lenders, a reduction of secured overnight financing rate (SOFR) spreads throughout the market, and a buildup of dry powder available for new lending opportunities. Dry powder within U.S. direct lending funds hit a new record of \$146 billion at the end of 2025 (compared to \$141 billion at the end of 2024) despite declines in private credit fundraising during the year, according to PitchBook LCD.

2025 Year In Review. Institutional M&A-related loan volume (excluding repricings and extensions) declined by 12.5% YOY to ~\$439 billion in 2025. New deployments were difficult to come by given a still subdued M&A environment. Refinancing and recapitalization transactions drove the majority of loan activity, collectively representing 61.9% of total institutional loan volume in 2025. As refinancings are typically a dollar-for-dollar replacement of outstanding loans, this activity resulted in almost no change to private credit dry powder, which has remained at record levels heading into 2026.

M&A Loan Activity. Hopes that 2025 would finally be the year that PE

M&A activity fully resurged never quite materialized despite minor gains in a still-subdued market. Shifts in U.S. trade policy, continued inflation, and only modest interest rate cuts put a full M&A volume recovery on hold. While M&A financing volume grew slightly in 2025 (+9.9% YOY), it remained below 2019-2022 levels. Further, sponsored middle market loan activity, while resilient during the past year, continued to be heavily supported by demand for incremental or add-on financings, which represented a significant and growing portion of M&A financing activity over the past several years. PE LBO financing activity declined slightly in 2025 (-1.5% YOY) and remained ~19.7% below 2022 levels and 59.3% below 2021. In response to this muted dealmaking environment, both PE and private debt investors have increasingly turned to Secondary markets, not just as a source of liquidity, but also as an area for new capital deployment.



Source: PitchBook LCD and Capstone Partners

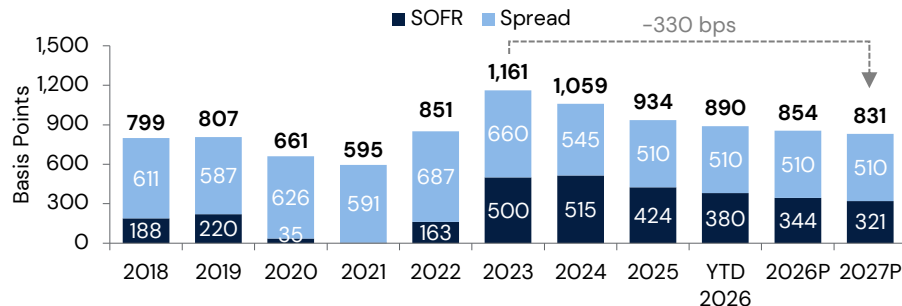
Capstone Viewpoints. One consistent piece of feedback we have heard from lenders in the market over the last two years is the increasing prevalence of continuation vehicle (CV) financing

CREDIT MARKET CONDITIONS (CONTINUED)

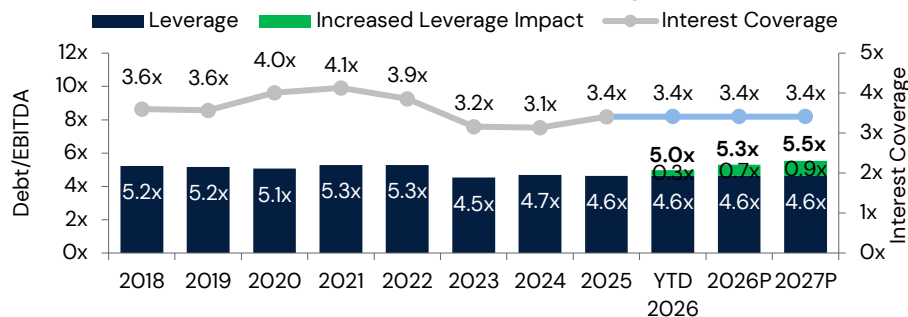
opportunities, which many lenders still view with caution. Generally, their emergence has been a positive development for direct lenders as they remain an ever-growing share of recapitalization pipelines. However, their hybrid nature—part recapitalization, part secondary sale—creates complexity, particularly for lenders with traditionally focused sponsor-owned investment mandates. Capstone believes the use of CVs will likely increase in the next few years, simultaneously buoying refinance/recap activity and dampening M&A activity volume. The lower middle market has historically trailed upper middle market adoption of bespoke structures by one to two years, but we expect smaller CV structures to grow more relevant as adoption broadens upstream.

What Borrowers Can Expect Heading into 2026. The U.S. Leveraged Loan markets have been—and will likely continue to be—in borrower-friendly territory, underpinned by the loan supply/demand imbalance and significant borrowing cost compression. While only modest further declines to all-in borrowing costs can reasonably be expected for 2026, the significant declines in both SOFR and spread rates over the past 24 months have already made a positive impact to PE LBO models. Capstone anticipated future all-in average borrowing costs for 2026 and 2027 based on expected declines to the base three-month SOFR rate (while keeping average spread flat at 510 bps). Total average borrowing costs are expected to decline to ~850 bps. While still significantly above 2021 levels, borrowing costs will likely approach 2018 levels, when average leverage was 5.2x (>0.5x higher than current levels) and interest coverage was 3.6x (in-line with current metrics). The impact on leverage from this reduction in borrowing costs could be significant, assuming lenders remain comfortable with current closing coverage metrics. Based solely on the anticipated rate reduction, average closing leverage could increase by 0.5x to 1.0x, while still maintaining the current 3.4x closing interest coverage levels. This increase in closing leverage would have a robust impact on LBO valuations and likely spur long awaited increased in M&A activity.

Historical & Expected All-In Average Borrowing Costs



Historical & Expected Key Lending Metrics



Year to date (YTD) ended February 10; Source: FRED, PitchBook LCD, and Capstone Partners

DEBT ADVISORY GROUP

The [Debt Advisory Group](#) helps privately-owned and sponsor-backed companies secure debt capital or leveraged finance for organic growth, acquisitions, dividend recapitalizations, and refinancings. The team works closely with clients to optimize their debt structures and secure the best long-term institutional partners for the business.



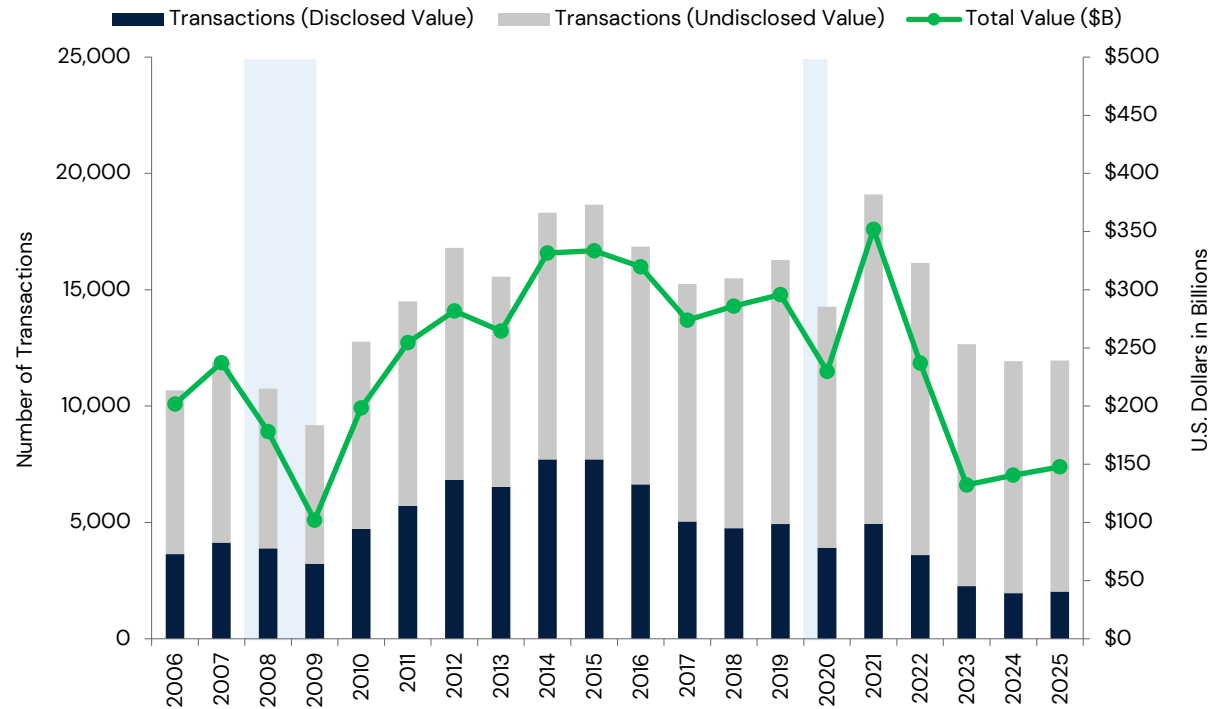
MIDDLE MARKET M&A ACTIVITY

M&A AMID ECONOMIC CYCLES

M&A ACTIVITY STABILIZES IN 2025 DESPITE HEADWINDS

- Middle market M&A activity staved off a YOY retraction in 2025 as buyers and sellers became more comfortable transacting amid broader geopolitical uncertainty and structurally higher tariffs. Deal volume held flat (+0.3%) YOY with 11,962 closed transactions.
- Deal activity remained depressed compared to historical standards. The middle market averaged 16,047 transactions annually between 2010 and 2019—25.5% higher than 2025’s total—alluding to a looming market rebound.
- Average disclosed enterprise value rose 1.2% YOY to \$72.6 million as buyers continued to deploy capital for scaled targets providing robust synergies and strategic significance.

Middle Market Transactions



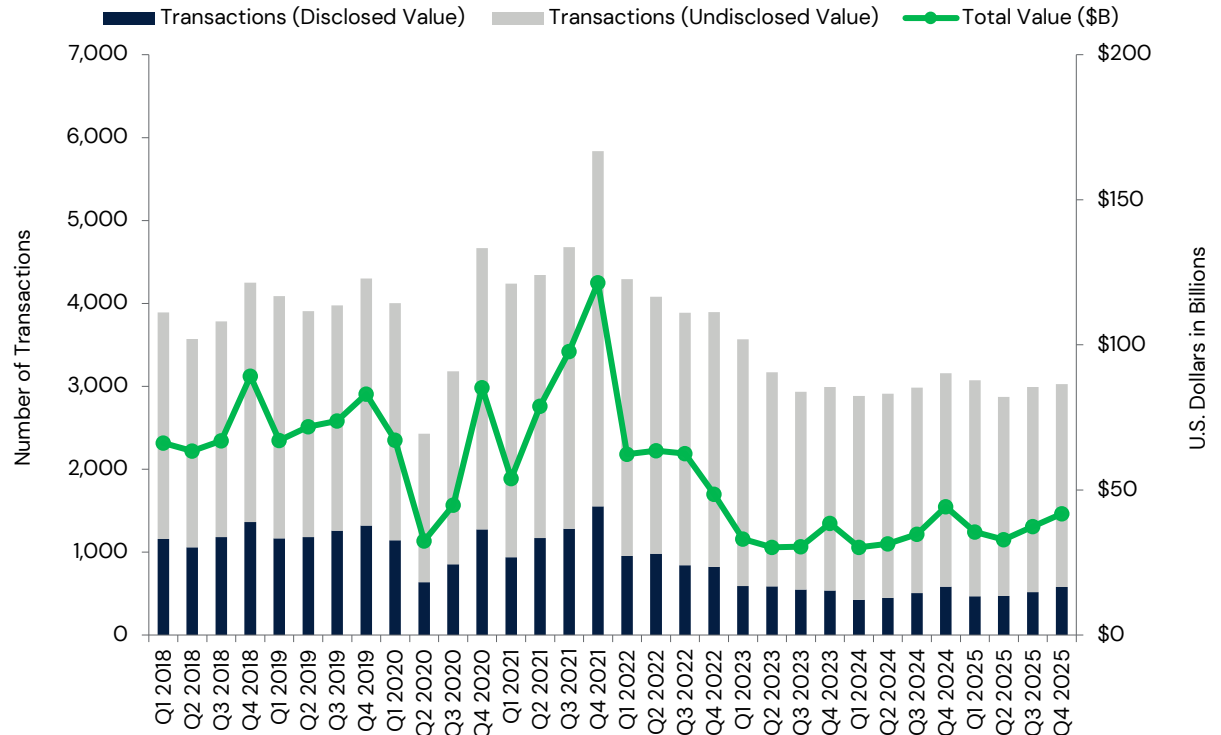
Enterprise Value < \$500mm; Blue shaded areas indicate U.S. recessions
Source: Capital IQ and Capstone Partners

QUARTERLY M&A VOLUME

M&A VOLUME AND TOTAL VALUE CONTINUE GAINS

- Total closed transactions in Q4 2025 ticked up 1.1% quarter-over-quarter (QoQ), marking the second consecutive quarterly increase and mirroring momentum heading into 2025 before tariffs thwarted dealmaker optimism.
- Average middle market deal value held steady QoQ (-0.1%) at \$72 million. Private strategics moved up market, seeing a 26.7% QoQ increase in average deal value (\$66 million). Public strategics sought larger transactions, averaging \$85.1 million in deal value (+2.6% QoQ) while sponsors' average declined 15.7% QoQ to \$70.7 million.
- Buyers deployed \$41.9 billion in total disclosed deal value in Q4, a 11.9% QoQ increase buoyed by private strategics (+36.8% QoQ).

Quarterly Middle Market Transactions



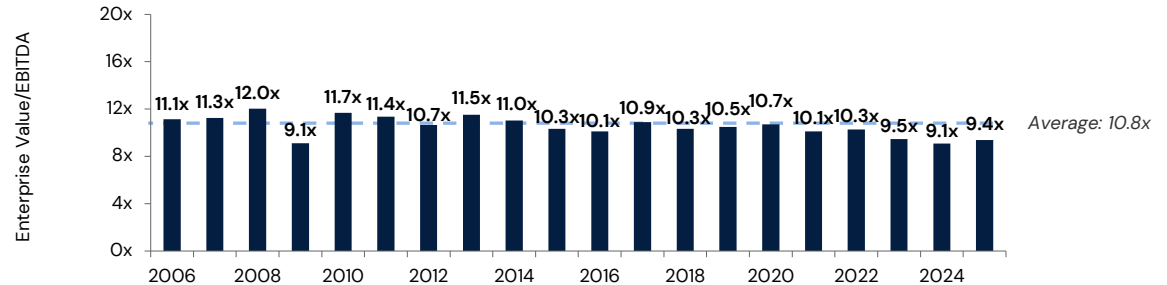
Enterprise Value < \$500mm
Source: Capital IQ and Capstone Partners

PRICING TRENDS

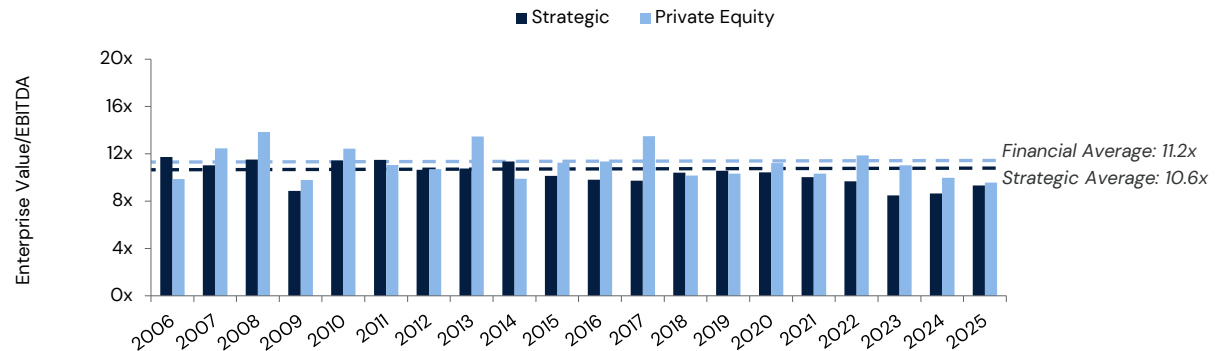
M&A MULTIPLES IMPROVE FROM 2024 LOW

- The average purchase multiple for middle market transactions rose to 9.4x EV/EBITDA in 2025, marking an increase from the 9.1x average recorded during the prior year.
- Valuations gained half a turn on a quarterly basis, with the average EBITDA multiple jumping to 8.9x in Q4 2025 compared to 8.3x in Q3 2025. Strategic buyers drove this increase in the quarter, seeing the average EBITDA multiple paid for middle market businesses jump two turns QoQ to 10.1x.
- PE firms paid higher multiples than strategics for the sixth consecutive year in 2025, paying an average of 9.6x EV/EBITDA for middle market businesses compared to the strategic buyer average of 9.3x.

Middle Market Average EBITDA Multiple



Average EBITDA Multiples by Buyer Type



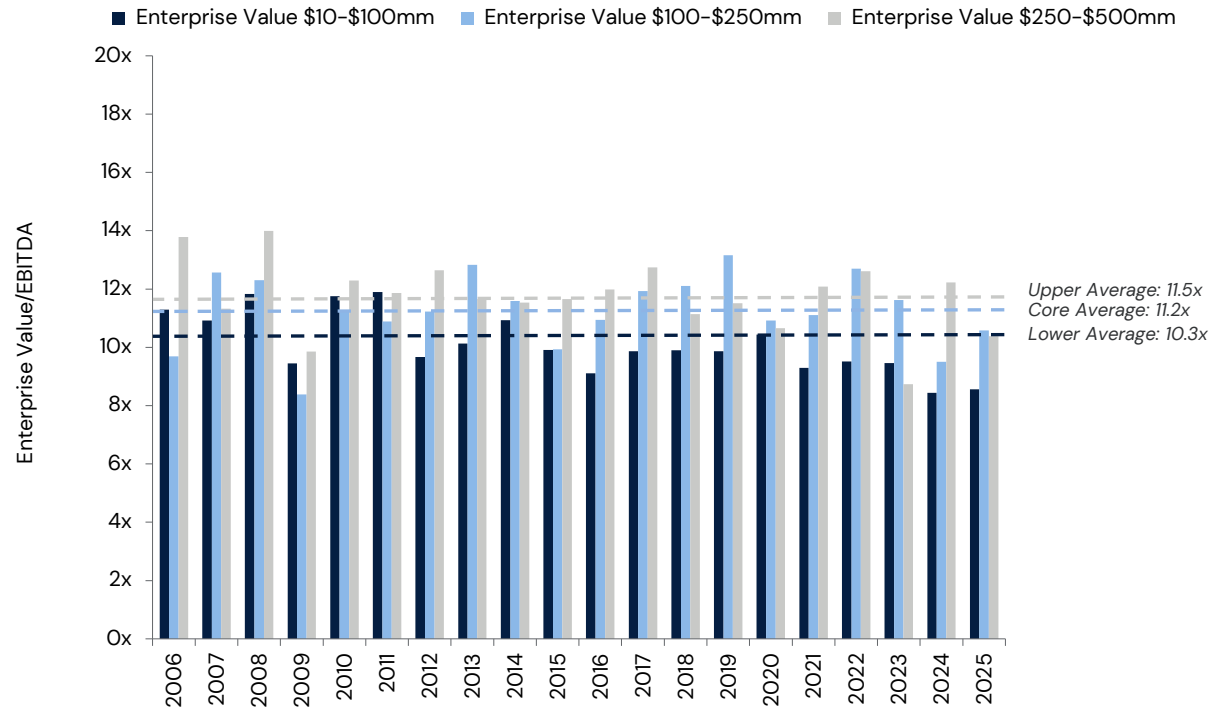
Enterprise Value < \$500mm; Includes multiples 3x-30x
Source: Capital IQ and Capstone Partners

BREAKING IT DOWN BY SIZE

CORE MIDDLE MARKET ASSETS LEAD M&A PRICING

- In 2025, valuation multiples rose among lower (\$10–\$100 million) and core (\$100–\$250 million) middle market assets as deal volume accelerated and buyer competition for attractive, easily digestible businesses increased. The lower middle market saw M&A activity increase 2.9% YOY and multiples rise to 8.6x EV/EBITDA while core middle market deals jumped 11% YOY and multiples climbed more than a turn to 10.6x.
- Upper middle market (\$250–\$500 million) assets saw average M&A pricing decline to 10.4x in 2025 as disclosed deals fell 1.5% YOY. A flight to scale in the broader M&A market continued with a slew of large-scale (>\$500 million) deals closing during the year. Select buyers moved above the upper middle market, contributing to softness in this deal value range.

Average Enterprise Value to EBITDA Multiple



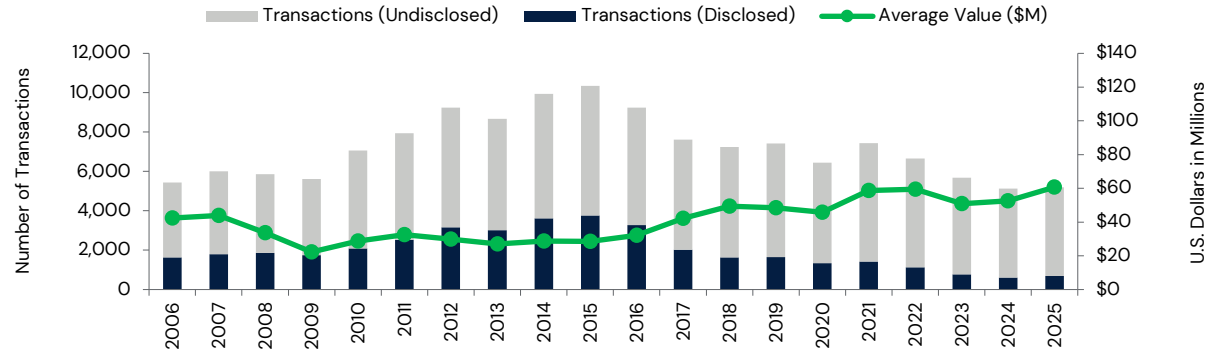
Enterprise Value < \$500mm; Includes multiples 3x–30x
 Source: Capital IQ and Capstone Partners

STRATEGIC ACQUIRERS

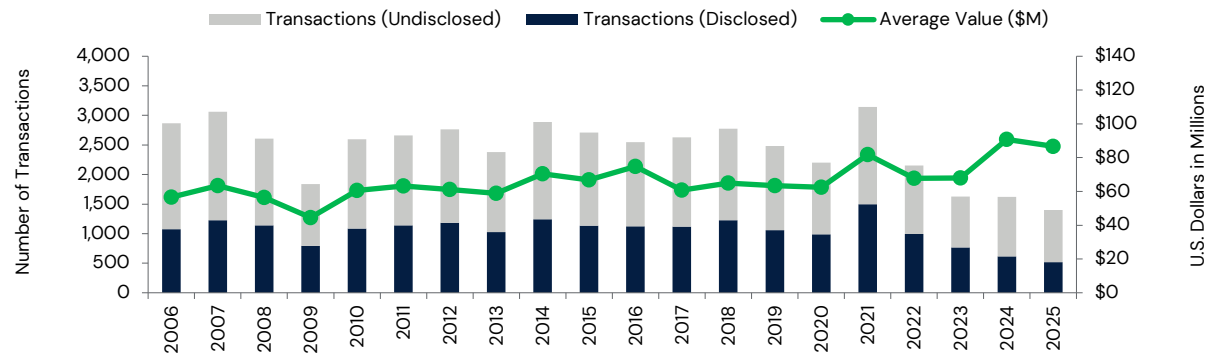
PRIVATES NOTCH FIRST M&A VOLUME GAIN SINCE 2021

- Private strategic activity stabilized in 2025, posting a 1.2% YOY increase in deal volume. This marked the first annual gain since 2021. Total deal value rose 30.5% YOY to \$41.6 billion—the largest amount of capital deployed since 2021—and average deal value reached the highest on Capstone’s record (\$60.7 million).
- Private businesses effectively leveraged operational agility and acclimated to the shifting macroeconomic landscape well, helping many operators capture new opportunities and reignite offensive M&A playbooks.
- Public strategics continued to retreat, with deal volume (-13.7% YOY), average deal value (-4.5% YOY), and total deal value (-19.7% YOY) all declining during the year.

Acquisitions by Private Companies



Acquisitions by Public Companies



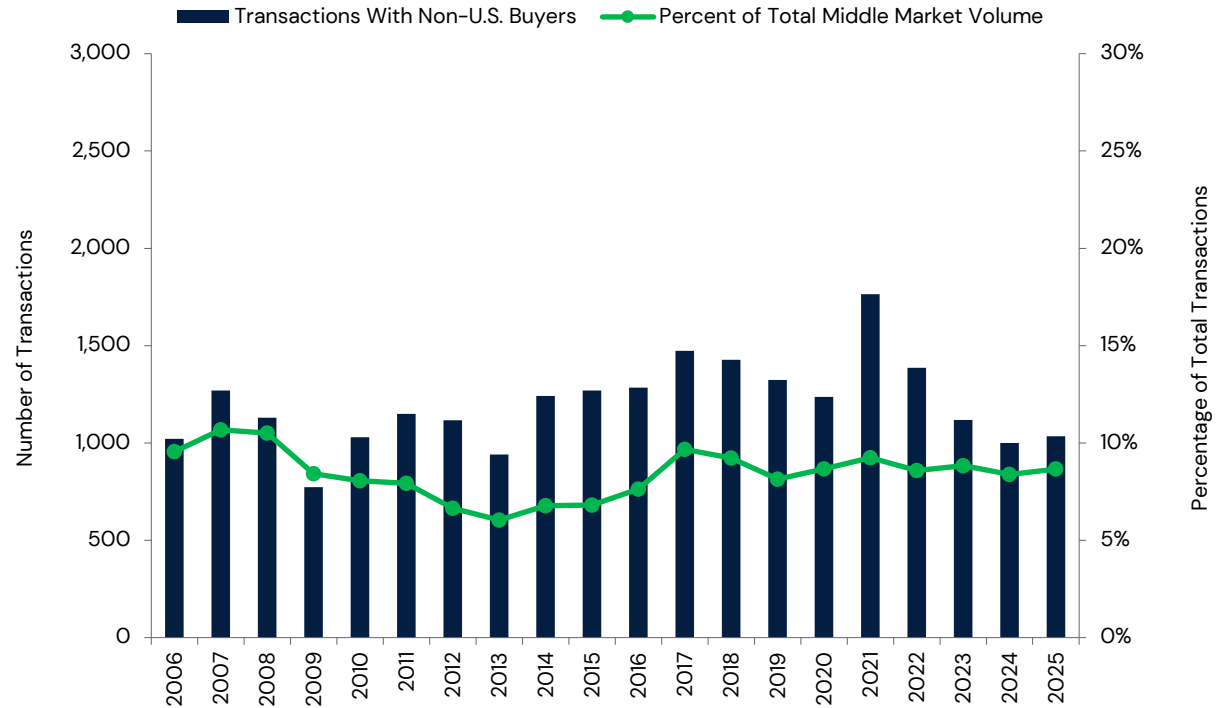
Enterprise Value < \$500mm
Source: Capital IQ and Capstone Partners

FOREIGN ACQUIRERS

FOREIGN BUYERS CONTINUE TO BUILD U.S. EXPOSURE

- Foreign buyer activity ticked up YOY, with non-U.S. acquirer deal volume rising 3.5% in 2025 as shifting trade dynamics prompted foreign buyers to establish a U.S. presence to mitigate tariff-related costs.
- Valuations paid by foreign acquirers averaged 10.4x EV/EBITDA, more than a full turn greater than the average multiple paid in 2024, reflecting the premium placed on accessing stable U.S. assets under more predictable trade conditions.
- Capstone maintains connections to international buyers through our partner network, [IMAP \(International M&A Partners\)](#), expanding Capstone's reach to more than 550 partners across 60+ offices in 51 countries.

Non-U.S. Buyers



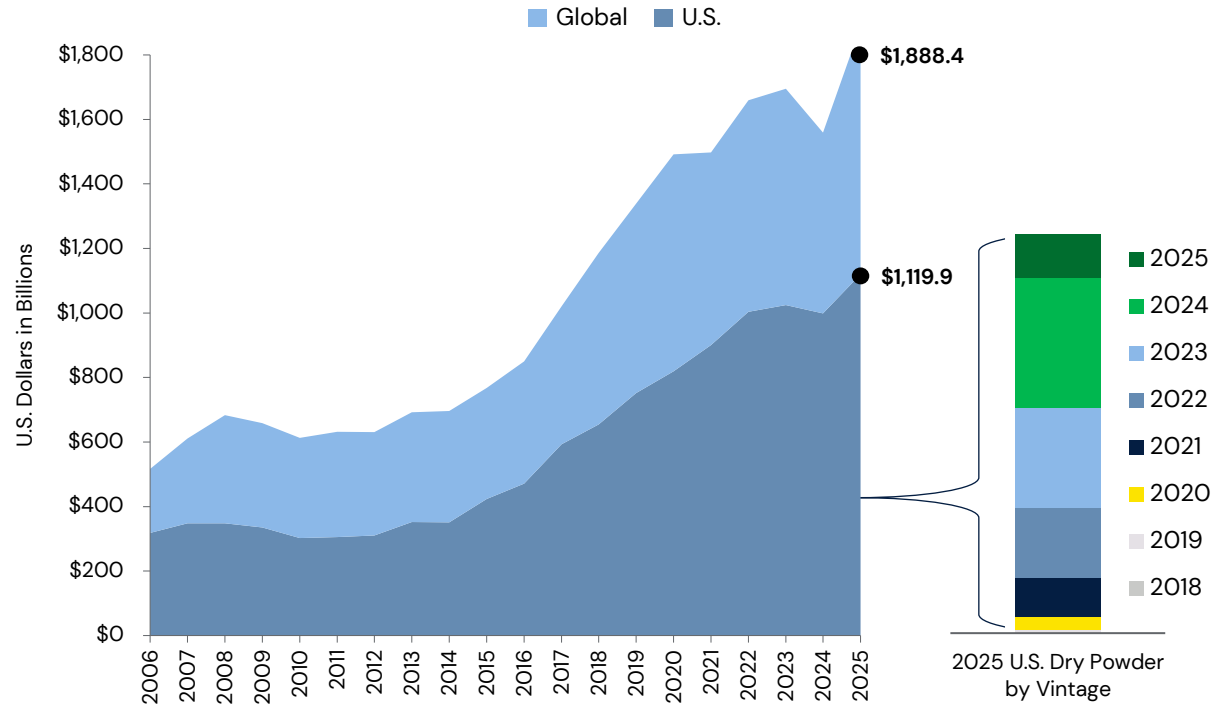
Enterprise Value < \$500mm
Source: Capital IQ and Capstone Partners

PRIVATE EQUITY DRY POWDER

DRY POWDER RESERVES REMAIN ROBUST

- Approximately \$1.9 trillion in dry powder remains for PE firms to deploy. Favorable Debt market conditions, driven by heightened competition among creditors for a more limited set of lending opportunities, tightened spreads charged above base rates, and aggressive lending terms, have supported PE M&A. However, fundraising has remained under pressure as few portfolio exits and muted LP distributions have constrained capital recycling.
- U.S. dry powder, which rebounded to more than \$1.1 trillion as of Q2 2025, underscores the risk-off appetite for capital deployment in early 2025. However, dry powder will likely decline as PE M&A picked up in H2 2025 and fundraising underperformed capital deployment.

PE Capital Overhang by Year



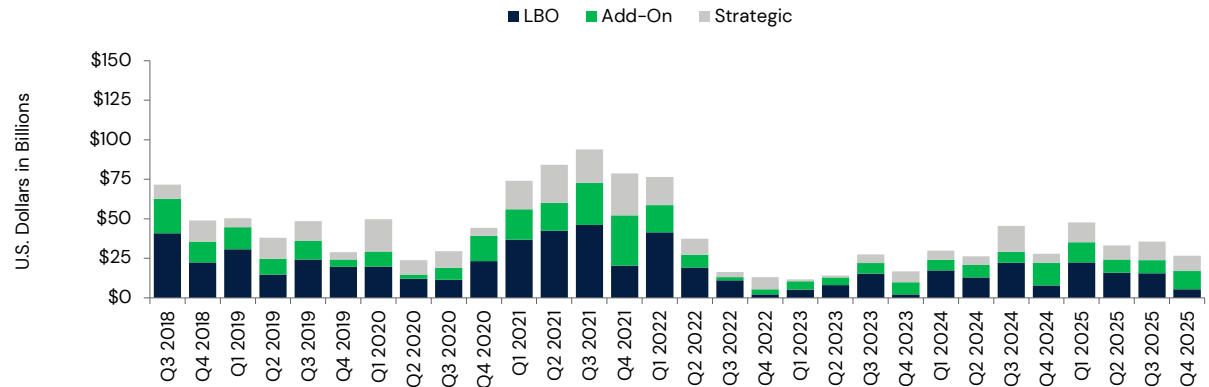
Dry powder includes committed capital from open and closed funds of all sizes; data as of June 30, 2025
Source: PitchBook and Capstone Partners

PRIVATE EQUITY LOAN ISSUANCE

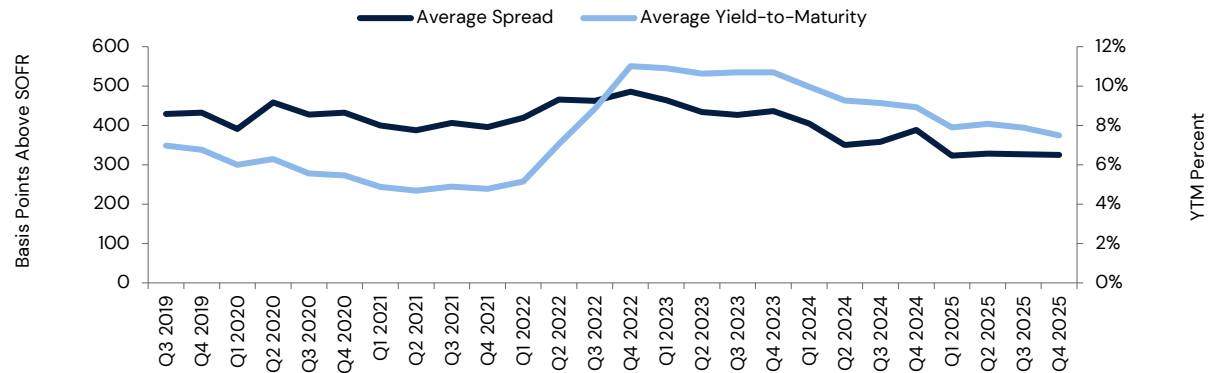
QUARTERLY LOAN VOLUME DIPS, SPREADS REMAIN TIGHT

- Total M&A-related loan issuance value in the Institutional Loan market declined 25.2% QoQ and 4.8% YOY in Q4 to \$26.7 billion, primarily attributable to a pullback in LBO financing activity.
- LBO issuance dropped 1.5% YOY in 2025 while both add-on (+13.8% YOY) and strategic (+29% YOY) loan value gained. M&A-related loan value remained 20.7% below the nine-year annual average of \$180.6 billion. Strong M&A market fundamentals and lower borrowing costs are expected to drive higher M&A loan value in 2026.
- Average loan spreads for M&A tightened for the third consecutive quarter to 325 bps and three Fed rate cuts further compressed new-issue yield-to-maturity (YTM) on M&A loans.

M&A-Related Loan Volume



M&A-Related Loan Spreads and Yield-to-Maturity



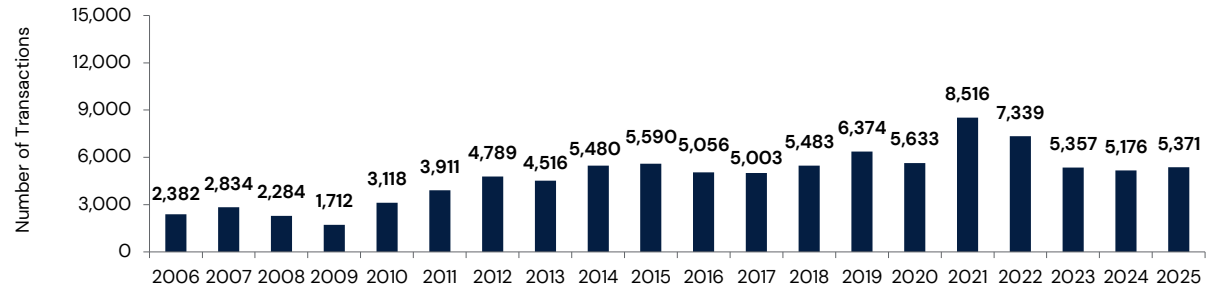
Source: PitchBook and Capstone Partners.

PRIVATE EQUITY ACTIVITY

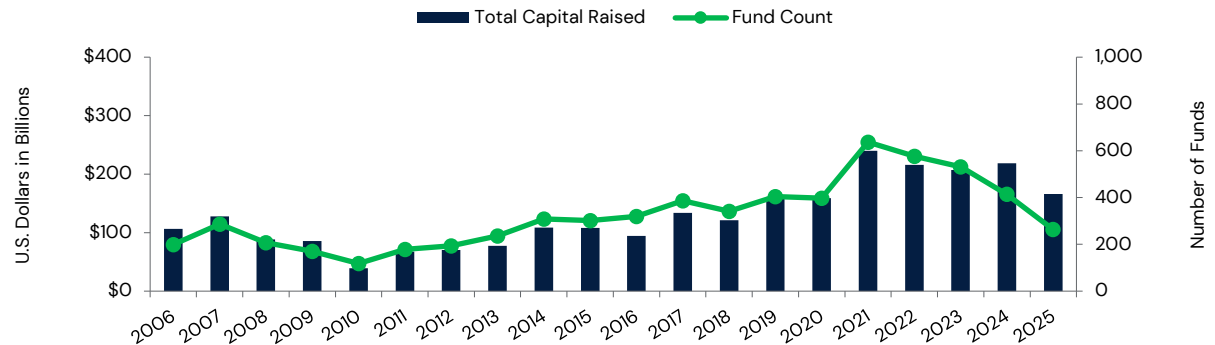
PE CAPITAL DEPLOYMENT RISES, FUNDRAISING REMAINS DOWN

- PE transactions increased 3.8% YOY in full-year 2025 despite Q4 2025 observing the first YOY decline (-4.1%) in sponsor activity since Q2 2024. PE firms consistently deployed capital throughout the year with between 1,358 and 1,363 closed transactions in three of the four quarters. Q2 was an outlier given tariff volatility, with 1,290 closed deals.
- The fundraising environment remained subdued in 2025, further regressing as unfulfilled capital deployment mandates on prior funds and challenged exit activity hindered new fundraising efforts. Total capital raised (-24.1% YOY) and fund count (-36.3% YOY) dropped during the year.

Middle Market Transactions Closed by PE Firms



Middle Market Fundraising by PE Firms



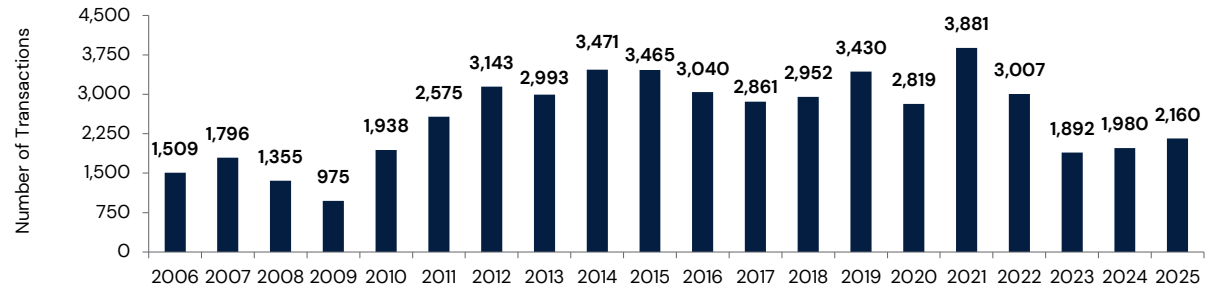
Enterprise Value < \$500mm; Fund size < \$5B
Source: Capital IQ, PitchBook, and Capstone Partners

PRIVATE EQUITY TRANSACTION TYPES

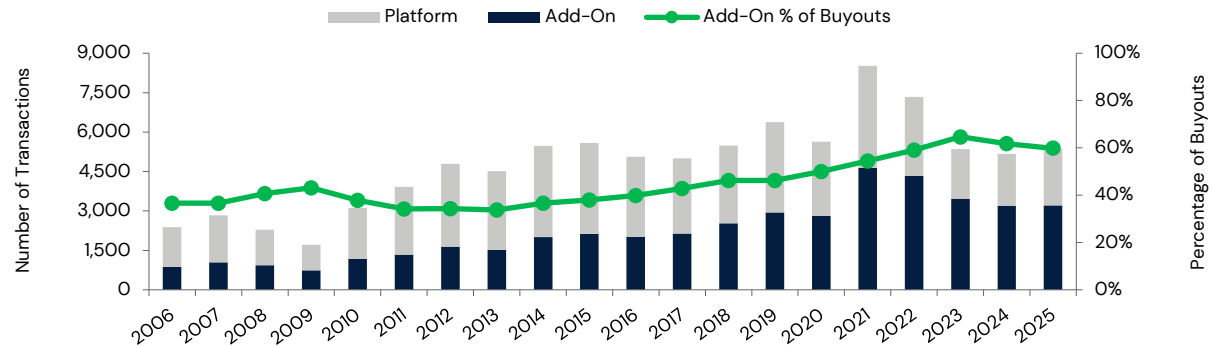
PLATFORMS A BRIGHT SPOT, ADD-ONS CONTINUE STEADILY

- PE platform investments rose 9.1% YOY in 2025, accelerating from the 4.7% gain observed in 2024 and building toward the 2010–2019 mean of 2,987 deals. Add-on transactions remained stable (+0.5% YOY) in 2025.
- Platforms dropped 2.2% YOY in Q4 2025—primarily due to a strong Q4 2024 comparison which saw the highest number of new buyouts since Q4 2022. However, capital deployment sustained momentum from Q3, resulting in a 12.4% QoQ increase in these deals during Q4.
- Add-on activity declined 5.6% YOY and 8.7% QoQ as fund managers focused on emerging platform opportunities and exploring exit avenues for mature holdings to return distributions and bolster new fundraising prospects.

PE Platform Investments



PE Add-On Acquisitions



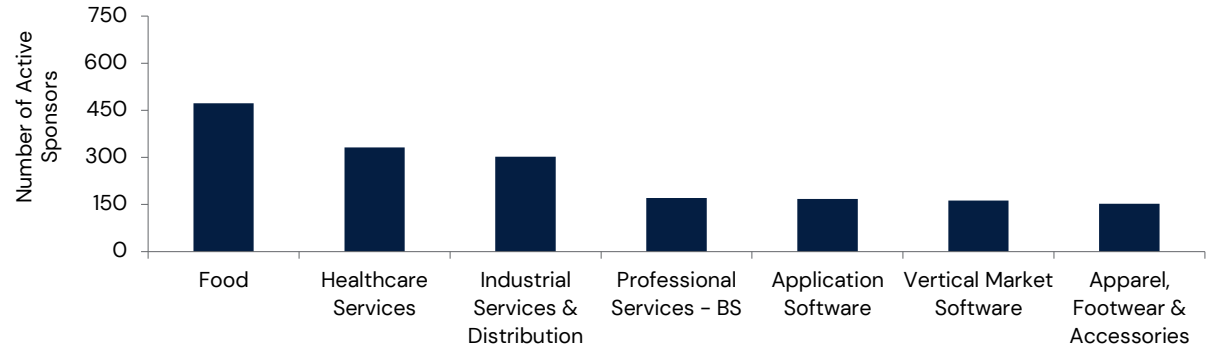
Enterprise Value < \$500mm
Source: Capital IQ and Capstone Partners

CAPSTONE'S PRIVATE EQUITY NETWORK PREFERENCES

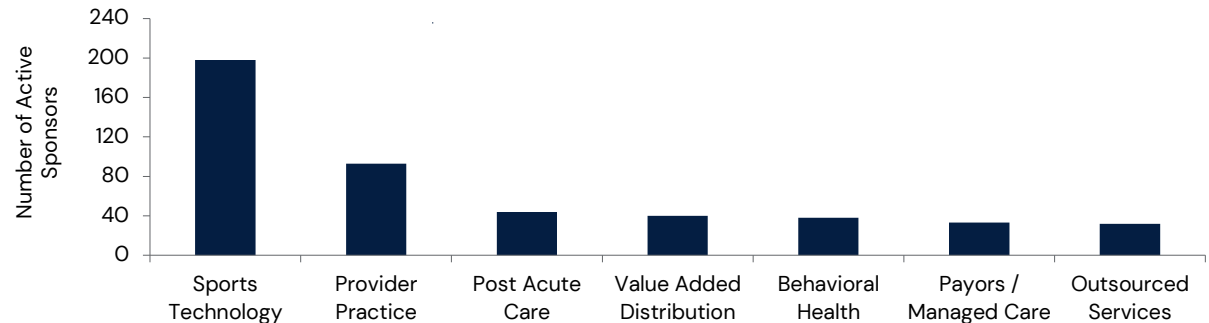
SPORTS TECHNOLOGY LEADS SUBSECTOR PREFERENCES

- **Food** remained the most preferred sector among Capstone's sponsor network in 2025, continuing its strong lead as investors prioritized resilient consumer demand and defensive characteristics.
- Healthcare Services, Industrial Services & Distribution, and Professional Services held subsequent positions, reflecting interest in service models and supply chain stability.
- **Sports Technology** and Provider Practice remained top preferences, supported by innovation and demographic tailwinds, followed by Post Acute Care and Value-Added Distribution, which benefit from structural growth trends and operational efficiencies.

PE Sector Preferences



PE Subsector Preferences



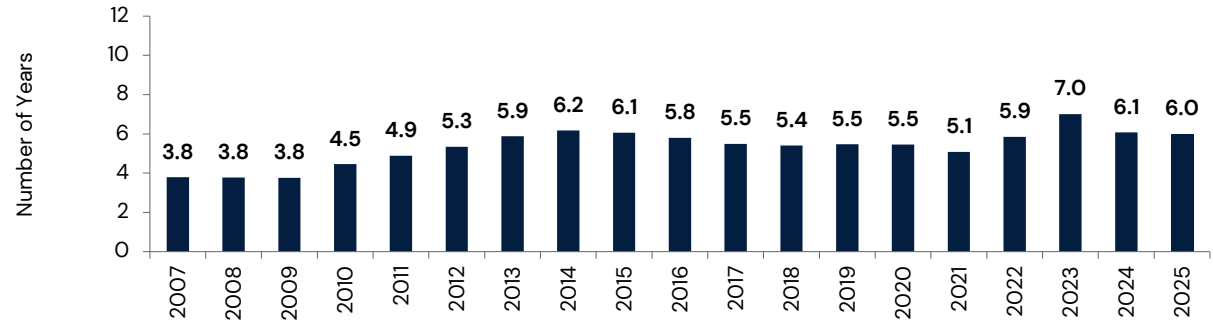
Source: Capstone Partners proprietary data

PRIVATE EQUITY HOLDING DATA

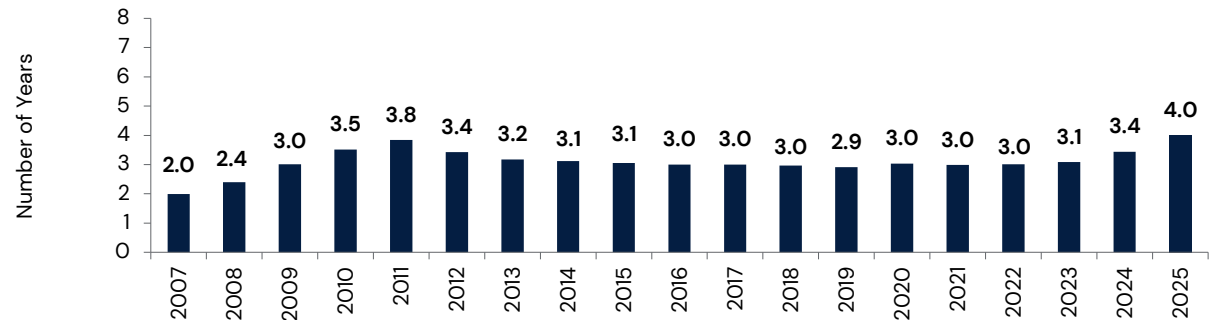
ACTIVE BUYOUTS CONTINUE TO AGE IN 2025

- By the close of 2025, the median holding period for exited PE buyouts settled at six years, nearly unchanged from the prior year but notably shorter than the seven-year median recorded in 2023. Exit activity remained sluggish, with most transactions concentrated around top-performing assets.
- Meanwhile, the median holding period for active portfolio companies climbed to four years, surpassing the historical peak. This trend underscores the aging profile of PE-backed inventories amid a challenging exit environment.
- PE-backed asset inventory levels reached a new record of 13,143 businesses in 2025. Assets beyond prime harvest years (vested for four or five years) comprised 30.5% of PE-backed company inventory.

Median Holding Period for Exited PE Buyouts



Median Holding Period for Active PE Buyouts



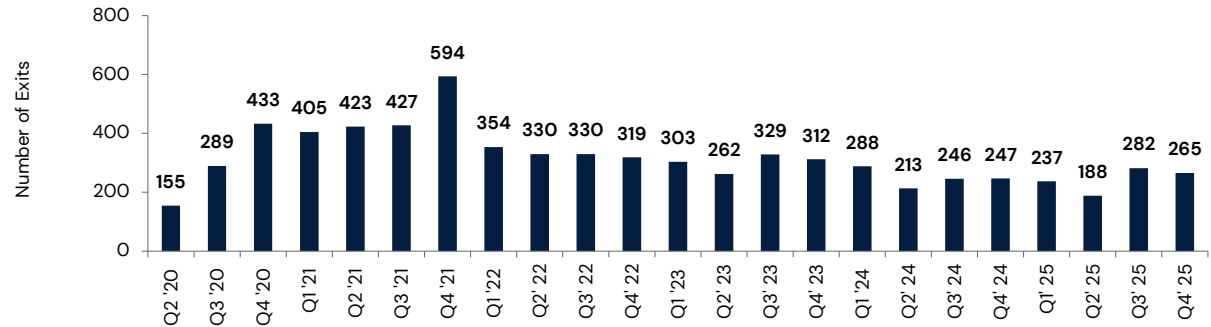
Source: PitchBook and Capstone Partners

PRIVATE EQUITY EXIT ACTIVITY

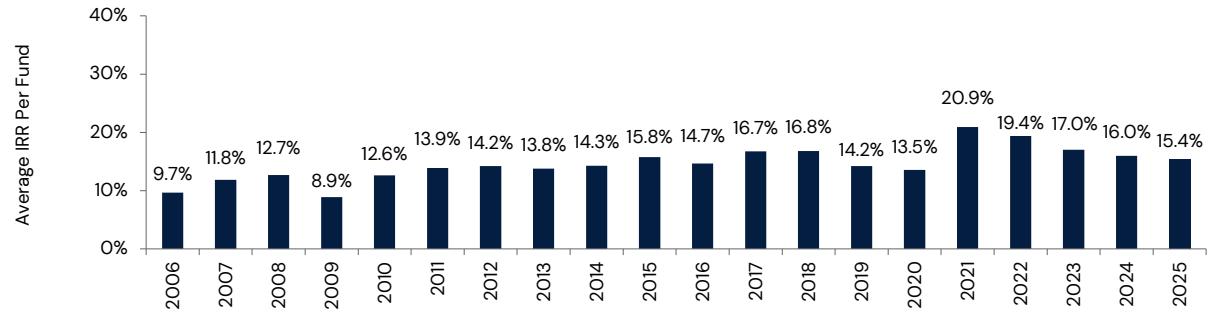
EXIT VALUE AND COUNT JUMPS WHILE RETURNS DIP

- PE exit volume declined 6% QoQ in Q4 2025 but exit value climbed 97.5% QoQ to \$210.3 billion, the greatest total exit value since Q3 2021. Large transactions of scaled, best-in-class portfolio companies boosted total exit value, indicating the exit environment remains fragile for the majority of portfolio companies reaching maturity.
- Exit count in Q4 2025 increased 7.3% YOY while exit value jumped 103.3% YOY. Although exit opportunities remained limited for most PE portfolio companies, the YOY uptick in exit count bodes well for a broader market opening.
- PE internal rate of return (IRR) averaged 15.4% in 2025. Rate cuts, an improved dealmaking backdrop, and a gradual return of exits will likely stabilize PE returns.

U.S. PE Exit Activity



U.S. PE Internal Rate of Return



Note: Includes all U.S. PE exits
Source: PitchBook and Capstone Partners



CAPSTONE BAROMETERS

CAPSTONE PARTNERS' FULLY INTEGRATED EXPERTISE

We have developed a service delivery model that can address the needs of any client situation, supported by vast internal resources. These capabilities are delivered together with deep domain expertise across 12 dedicated industry groups with an established, real-time access to the private equity community.

<h3>Mergers & Acquisitions</h3> <ul style="list-style-type: none"> • Sell-side Advisory • Buy-side Advisory • Recapitalizations • Mergers & Joint Ventures 	<h3>Capital Advisory</h3> <ul style="list-style-type: none"> • Equity Advisory • Debt Advisory • Infrastructure Finance 	<h3>Financial Advisory</h3> <ul style="list-style-type: none"> • Transaction Advisory • Interim Management • Performance Improvement • Advisory Services • Litigation Support 	<h3>Special Situations & Restructuring</h3> <ul style="list-style-type: none"> • Special Situations • Turnaround • Restructuring • Bankruptcy • Insolvency 	<h3>ESOP Advisory</h3> <ul style="list-style-type: none"> • Preliminary Analysis • Feasibility Study • ESOP Implementation • Liability Study • IRC § 1042 Design
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Industry Groups

 <p><u>Aerospace, Defense, Government & Security</u></p>	 <p><u>Building Products & Construction Services</u></p>	 <p><u>Business Services</u></p>	 <p><u>Consumer</u></p>
 <p><u>Agriculture</u></p>	 <p><u>Energy, Power, & Infrastructure</u></p>	 <p><u>FinTech & Services</u></p>	 <p><u>Healthcare</u></p>
 <p><u>Industrials</u></p>	 <p><u>Industrial Technology</u></p>	 <p><u>Technology, Media, & Telecom</u></p>	 <p><u>Transportation & Logistics</u></p>

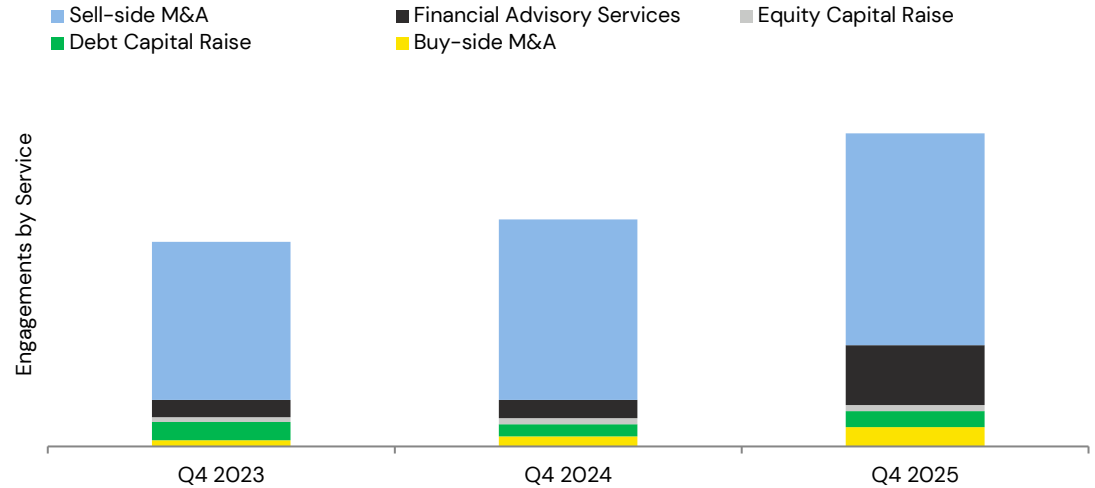
Sponsor Coverage Group

FIRM DATA

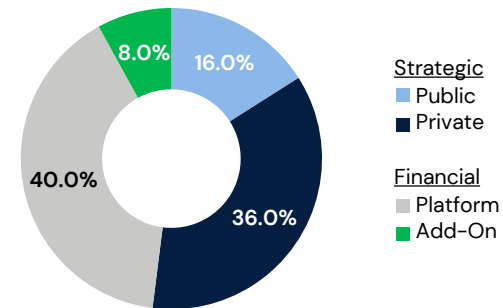
CAPSTONE ENGAGEMENTS LED BY STRATEGIC BUYERS

- The number of Capstone's sell-side and buy-side engagements ticked higher YOY in Q4. The Financial Advisory Services (FAS) Group also saw strong demand, as business owners leveraged an array of financial solutions to address market volatility.
- Strategics accounted for the majority (52%) of 2025 buyers, with private businesses comprising 36% of acquirers.
- Financial buyers maintained a strong presence in the middle market, comprising approximately 48% of Capstone's 2025 transactions, with platform investments making up 40% of all deals amid improving credit conditions and impatient LPs demanding capital deployment.

Capstone Engagements By Service



Capstone 2025 Buyer Breakdown



Source: Capstone proprietary data based on live engagements and closed sell-side engagements

RECENT DEAL CLOSINGS

Capstone is an active leader in middle market M&A advisory, serving many clients and their needs, despite the unprecedented disruptions to the economy. Select our recent tombstones below to read the full press release.



OFFERWISE
HAS BEEN ACQUIRED BY
norstat



DIAMOND
GLOBAL SOURCING LLC
HAVE BEEN RECAPITALIZED BY
LVC
LONGLEVEE CAPITAL
Fogel & Ak

MAX
AUTOSUPPLY
COMPANY
HAS BEEN ACQUIRED BY
MIDAS



BERTRAM
CAPITAL
HAS ACQUIRED
LEFT LANE
AUTO



VariPhy
HAS BEEN ACQUIRED BY
VALSOFT



TPC | THE PARTNER COMPANIES
HAS RECEIVED A \$100M
GROWTH EQUITY
INVESTMENT FROM
TENSILE
CAPITAL MANAGEMENT

NOVA SOURCE™
POWER SERVICES
a portfolio company of
CLAIRVEST
OMERS
HAS DIVESTED
SUNSYSTEM
TECHNOLOGY




CHAMPION
CONTRACTS & SERVICES
HAS BEEN ACQUIRED BY
PLATFORM PARTNERS



KEYSTONE
PERFUSION SERVICES
HAS BEEN ACQUIRED BY
STRATACRITICAL
MEDICAL SOLUTIONS - LOGISTICS



Accredited Labs
a portfolio company of
INCLINE
EQUITY PARTNERS
HAS ACQUIRED
OCS **TRIDENT**
TECHNOLOGIES **TRIDENT**
TELEVISION LINE



MICKEY
TRUCK BODIES
HAS BEEN ACQUIRED BY
IOP



EXTRA DUTY
SOLUTIONS
HAS RECEIVED A GROWTH
EQUITY INVESTMENT FROM
BregalSagemount



PINpoint
HAS BEEN RECAPITALIZED
VIA AN ESOP BY
advantive



ICKLER
ELECTRIC
CORPORATION
HAS BEEN RECAPITALIZED
VIA AN ESOP BY
MOSAIC CAPITAL
PARTNERS



AllAccem
HAS BEEN ACQUIRED BY
vimian™



allied
PAYMENT NETWORK
HAS BEEN ACQUIRED BY
autobooks



EEGLOBAL
FINANCIAL ADVISORY
AND INSOLVENCY
SERVICES



FREEDMAN®
SEATING COMPANY
HAS BEEN ACQUIRED BY
LIPPERT



ADC
HOLDINGS
WAS ADVISED BY
CAPSTONE PARTNERS
ON SECURING A \$40M
SENIOR CREDIT FACILITY



BIGTOP
FABRIC STRUCTURES
HAS BEEN ACQUIRED BY
Altamont
CAPITAL PARTNERS



CENTURY
EQUITY PARTNERS
vss
HAVE RECAPITALIZED
LUMENCI

LEADERSHIP TEAM



JOHN FERRARA, FOUNDER AND PRESIDENT

jferrara@capstonepartners.com | 617-619-3325

John has dedicated 30+ years to serving as a trusted advisor to privately held businesses. Representative of over 200 engagements, he has acted as investment banker, management consultant, interim executive, investor, founder and board member. John has been recognized as one of the Top 50 M&A advisors in the U.S. and honored as an M&A Advisor Hall of Fame inductee. Under his leadership, Capstone has expanded to 19 offices in the U.S., U.K., and Brazil with an international platform that spans over 450 professionals in 40 countries worldwide. John graduated from Wesleyan University with an MBA from UCLA and The London School of Economics.



KEN WASIK, HEAD OF INVESTMENT BANKING

kwasik@capstonepartners.com | 917-434-6124

Ken serves as Capstone's Head of Investment Banking and leads the Consumer Investment Banking Group. He brings 25 years of investment banking experience including domestic and international mergers & acquisitions, initial and secondary offerings of public companies, debt raises, and private placements for his clients. He has helped raise over \$10 billion in capital for clients during his career. Ken joined Capstone Partners from Stephens Investment Bank, where he started and led the Consumer Products Group. Prior to Stevens, Ken was with Jefferies and Co. as Managing Director of Consumer Products, and spent time as Head of the Consumer, Food, and Retail Group at Houlihan, Lokey, Howard, and Zukin.



OLIVIA FERRIS, COO

oferris@capstonepartners.com | 303-962-5772

Olivia Ferris has over 10 years of investment banking experience with Capstone Partners and currently serves as Chief Operating Officer on the firm's executive team. In this role, Olivia is responsible for overall firm strategy, corporate development, partnerships, strategic initiatives, and investments. She is central to communicating, executing, and sustaining Capstone's priorities and translating them into a comprehensive strategic plan. Olivia earned a BSBA in Finance from Daniels College of Business, University of Denver.



PAUL JANSON, HEAD OF M&A

pjanson@capstonepartners.com | 303-887-0174

Paul brings over 25 years of executive experience to Capstone Partners' management team. As Head of M&A, he oversees all mergers and acquisitions advisory activity across the firm, from deal origination to execution and closing. As an active investment banker himself, he maintains a specialized focus in the Telecommunications Services, Manufacturing, and Infrastructure sectors. Previously, Paul served as President & CEO of Camiant, a Packet Cable Multimedia broadband company. Paul was also CEO of Worldbridge Broadband Services Inc, a broadband and telecommunications company that was later acquired by C-Cor. Paul then became President of C-Cor's Global Services Division.

LEADERSHIP TEAM (CONTINUED)



PETER ASIAF, HEAD OF BUSINESS DEVELOPMENT

pasiaf@capstonepartners.com | 617-619-3368

Peter has more than 20 years of experience as a senior business development executive across the professional and financial services industries. He has been a growth-oriented leader in early-stage, middle-market and Fortune 500 enterprises, helping them to design and execute strategic expansion plans, optimize brand positioning and strengthen key market relationships. Peter is a Certified Exit Planning Advisor (CEPA) designated by the Exit Planning Institute.



BRENDAN BURKE, HEAD OF SPONSOR COVERAGE

bburke@capstonepartners.com | 303-531-4603

Brendan has 16 years in investment banking experience. He oversees the firm's outreach to private equity sponsors and recruitment of senior investment bankers. Since joining Headwaters MB (now Capstone) in 2004, he has held roles in transaction execution, business development, recruiting and marketing. In 2012, he was awarded 40 UNDER 40 by the M&A Advisor. He received a BA in Politics, Philosophy, Economics from Pomona College.



DANIEL MCBROOM, HEAD OF PRIVATE CAPITAL MARKETS

dmcbroom@capstonepartners.com | 303-951-7128

Daniel has 15 years of private and investment banking experience and is responsible for sourcing and analyzing hundreds of companies a year introduced by the firm's institutional clients and partners. Select companies are engaged and his team will stay involved until the transaction is closed. Before his financial career, Daniel spent seven years as a pilot in the United States Air Force. He earned an MBA from the University of Notre Dame and a BS from the United States Air Force Academy.



MARK CASPER, CHIEF FINANCIAL OFFICER, SUPERVISING PRINCIPAL

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Mark joined Capstone in 2016 and currently serves as the CFO and the Supervising Principal. In that capacity, Mark manages the FPA, oversees tax, financial, and regulatory reporting, and heads the firm's corporate development. Mark works in tandem with the President and COO ensuring financial feasibility for strategic initiatives as well as current business lines. In addition, he works closely with each banker to assist them in client management, regulatory efforts, and provides guidance around finance, accounting, and taxation. Prior to his current role, Mark spent over 11 years in public accounting. During his career, he has specialized in assurance, taxation, and business valuation consulting.

LEADERSHIP TEAM (CONTINUED)



SARAH DOHERTY, DIRECTOR OF MARKET INTELLIGENCE

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Sarah has more than 10 years of professional research, writing, and data visualization experience and leads the strategic coverage and development of Capstone’s middle market insights. She manages the firm’s Market Intelligence Team, which produces 150+ reports, articles, white papers, surveys, and capital markets updates each year. Her team’s award-winning M&A commentary and analysis has been featured in more than 50 of the nation’s top news outlets. Sarah received a BA from Biola University and was recognized in 2021 with the “Emerging Leader Award” by the M&A Advisor.



BRIAN DAVIES, MANAGING PARTNER, FINANCIAL ADVISORY SERVICES GROUP

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Brian has 20+ years of experience working in the fields of corporate recovery, business reorganization and interim management services. He has provided financial advisory services to lenders, debtors, creditors’ committees, trustees and equity holders in bankruptcy matters and out-of-court restructurings. Brian has provided assistance to under-performing businesses and acquirers of distressed companies. He has worked with companies to develop cost containment and asset rationalization plans, improve liquidity, re-engineer financial and other back-office functions. He received a MS from Bentley University and MSF from The McCallum School, Bentley University.



JIM CALANDRA, HEAD OF FINANCIAL ADVISORY SERVICES GROUP

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Jim has more than 25 years of experience in turnaround management consulting, interim management, fraud and forensic accounting, mergers and acquisitions, and recapitalizations. He has advised more than 50 companies through significant strategic transitions involving both public and private middle market companies with varying situations. Jim received a BS in Accountancy from Bentley University and an MS in Accountancy from The McCallum Graduate School of Business, Bentley University.





Capstone Partners, a subsidiary of Huntington Bancshares Incorporated (NASDAQ:HBAN), has been a trusted advisor to leading middle market companies for over 20 years, offering a fully integrated range of investment banking and financial advisory services uniquely tailored to help owners, investors, and creditors through each stage of the company's lifecycle. Capstone's services include M&A advisory, debt and equity placement, corporate restructuring, special situations, valuation and fairness opinions, and financial advisory services. Headquartered in Boston, the firm has 175+ professionals in multiple offices across the U.S. With 12 dedicated industry groups, Capstone delivers sector-specific expertise through large, cross-functional teams. For more information, visit www.capstonepartners.com.

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